

**Statement by Ernesto S. Silva  
City Manager, Mercedes, Texas**

**before the**

**Subcommittee on International Monetary Policy and Trade  
of the Committee on Financial Services  
U.S. House of Representatives**

**May 2, 2002**

Chairman Bereuter, Ranking Member Sanders, members of the subcommittee, it is an honor to have the opportunity to testify before you on the relationship between local communities and the North American Development Bank (NADBank) and its sister institution, the Border Environmental Cooperation Commission (BECC). As you requested, I will also comment on the Bush Administration efforts to improve performance of both institutions and their proposed merger.

## Introduction

The City of Mercedes is a small rural community located along the U.S.-Mexico border in South Texas and has approximately 14,000 residents of whom 52% of the population lives in poverty. The community has an unemployment rate of over 16% with a per capita income of \$5,237 and the average home value is \$29,500. From the demographics, a person can conclude the City of Mercedes is a distressed community like those typically found along the U.S.-Mexico border. Mercedes also has a high dropout rate, limited health care services, limited employment opportunities, deteriorated infrastructure, and limited resources to address these issues.

The City of Mercedes, like many other border communities in the State of Texas, lacks the necessary infrastructure to provide basic utility services to its residents and others living in its extra-territorial jurisdiction. According to the Texas Water Development Board, there are 30 colonias in the Mercedes area with a combined population of over 8,000. Due to the lack of proper planning and lack of financial resources, the City of Mercedes in the late 1980's found itself struggling to provide basic utility services to its customers. The devaluation of the Mexican peso, two severe freezes and diminishing employment opportunities in the agricultural and textile industries were some of the factors that contributed to the distress of the community. Many have argued the military base closings from 1950 to 1975 in the Rio Grande Valley were the initial factors to negatively impact Mercedes.

In 1991 the Texas Water Development Board (TWDB) introduced the Economically Distressed Areas Program (EDAP) to cities and rural water supply corporations to construct water and sewer projects in South Texas colonias. The EDAP provided loans and grants to communities, and funding was dependent on two factors; a community's capability to provide water and sewer services to colonias and its ability to borrow money. The program was supposed to bring water and sewer services to colonia residents who were living in "Third World Conditions", while providing a community the ability to increase its water and wastewater treatment capacity. Ironically, the program created animosity between residents living in Mercedes and those residents living in colonias. The EDAP initiative failed to provide funding for cities to upgrade their existing infrastructure for future growth,

and did not allow for cities to utilize grant funds to replace their deteriorated distribution and collection systems. Community stakeholders were quick to inform the elected officials of their unwillingness to pay for utility improvements in colonias because those residents did not pay city taxes. The end result has been a slow moving program that on average takes five years to receive any funding. Thus the EDAP initiative created a demand for financing from the NADBank. Unlike the NADBank, the TWDB does not conduct a comprehensive review of a city's financials or utility infrastructure prior to accepting a city's facilities plan, since it only addresses the needs of colonias.

### **NADBank Experience**

In 1996 the City of Mercedes was the first community to receive funding from the North American Development Bank. After receiving a \$6.2 million grant from the Texas Water Development Board, the city applied to other Federal agencies to leverage the funding received from the TWDB. The city received a \$1.6 million grant from the Economic Development Administration, a \$1.3 million grant from the Rio Grande Valley Empowerment Zone and \$1.6 million loan from the NADBank. The City was forced to sell \$1.8 million in revenue bonds to fulfill the loan portion of the EDAP project that the NADBank agreed to loan. The NADBank loan proceeds remained with the city from 1996-1999 until the city decided to refund the bonds and sell bonds on the open market at an interest rate of 4.5%. Due to the lack of financial knowledge at the local level, the NADBank had unintentionally caused the city to sell bonds prematurely at a high interest rate of 9%. Also the city had made payments for 2 years without initiating construction.

In an effort to rectify the situation, the NADBank and the city held a series of highly productive meetings to discuss what solutions were available. The following programs were recommended:

## Institutional Development Plan

<u>Recommendation</u>	<u>Program</u>	<u>Cost</u>
• Upgrade the City's Financial Management System	RGV Empowerment Zone	\$250,000
• Conduct Water & Sewer Rate Study	NADBank	\$ 30,000
• Conduct Sanitation Rate Study	NADBank	\$ 18,000
• Conduct Inflow & Infiltration Study	NADBank	\$120,000
• Establish Debt Service Reserve	NADBank-Transition Asst.	\$450,000
• Establish Repair & Replacement Reserve	NADBank-Transition Asst.	\$250,000
• Implement a Water Meter Replacement Program	NADBank/City	\$850,000
• Adopt a Water & Wastewater Facility Plan	BECC/City	\$190,000
• Adopt a 5 year Capital Improvement Plan	City	\$ 50,000
• Adopt a 7 year Operational Budget	City	-0-
• Adopt a 7 year Water & Sewer Rate Increase Policy	City	-0-

The total cost to undertake the institutional development plan was \$2,178,000. The RGV Empowerment Zone provided \$250,000 and the NADBank provided \$1,178,000. The City of Mercedes participated with \$750,000. The institutional development plan resulted in a comprehensive understanding of how the city's Utility System was functioning. The city also sent its Utility and Finance personnel to the NADBank's Utility Management Institute training program in San Antonio, Texas. This comprehensive approach deviated from the original approach utilized by the BECC and NADBank. Historically, the BECC certified a city's engineering facilities plan that identified the infrastructural needs of the community and the NADBank reviewed the plan for funding availability. The institutional development plan for Mercedes guaranteed the NADBank the City of Mercedes would have the ability to become self-sufficient if projects identified in the engineering plan were funded.

Although the institutional development plan process identified an additional \$12 million in utility projects for the City of Mercedes, it provided the city with the understanding of how to finance the \$12 million in projects while taking into account the city's five year capital improvements plan, operational costs, and annual debt service.

## Bush/Fox Plan

The proposed Bush/Fox Reform Plan to extend the 100km inland to 300km would only impact Mexico. There should be a minimal amount of concern over the additional 200km and the impact it will have on existing projects. For communities in Mexico, the NADBank is probably the only option available to fund their projects due to the high interest rates in Mexico. However, American cities would still have the opportunity to apply for funding from other State and Federal agencies.

If the NADBank will be a viable option for American communities, it must have greater financial flexibility to increase the availability of grants to communities. The NADBank should increase funding for its Institutional Development Program and provide grants to those communities who undertake a comprehensive approach to resolve their infrastructural needs. An institutional development plan should be a requirement by NADBank for those who wish to apply for BECC certification. Financing provided by the NADBank should be at or below market rates; otherwise, NADBank financing for American cities is not a viable option.

After closely considering the impact the merging of the BECC and NADBank would have on our communities, I am reminded of the problems cities have faced when applying for funding from the Texas Water Development Board. It is imperative for the Congressional Leadership to understand that financing and engineering do not mix. The merging of these two agencies would create a much larger bureaucratic process that would ultimately fail our communities. From a personal prospective as a manager and operator of a municipal utility system, the BECC should be utilized to review projects for their engineering merits. The NADBank should be utilized to finance projects identified in a community's facility plan. If a community undertakes the institutional development process identified earlier, the BECC would be able to review and certify projects for local communities more effectively. A priority for the BECC and NADBank along with State and other Federal agencies should be to adopt a standardized procurement process. Another priority should be for state and federal agencies to standardize an acceptable engineering facility plan. The NADBank should be involved in the cost analysis and value engineering of a facilities plan. The local community

should be allowed to draw on approved funding once the project is under construction. The role of the BECC should be to monitor the construction and the role of the NADBank should be to monitor the financing. This Congressional Leadership should review the procedures utilized by HUD and EDA for better examples of procurement and financing systems.

The plan by President Bush and President Fox to expand the role of the BECC and NADBank to include private initiatives is important and should be given careful consideration. Expanding the role of the BECC and NADBank to provide funding for preventive programs instead of reactionary ones is key. Some of the most pressing issues facing both countries are health care, transportation and waste disposal. If we continue to provide funding for current programs that address only issues facing cities today, we will never have a comprehensive transformation of our borders. We must address health care issues, especially when we consider germs and diseases have no borders and the Rio Grande River provides drinking water for all cities along its winding path. Financing international crossing to minimize the impact international bridges have on our environment and urbanized centers is another important issue. The NADBank should fund international trade corridors to safely move goods and hazardous waste between both countries without threatening families living in local communities. Finally, the NADBank should fund private sector initiatives addressing disposal of solid waste and hazardous waste.

### **NADBank Programs**

If adopted by Congress, institutional development programs like the one identified earlier, should not require BECC certification. Only projects identified in the NADBank funded facilities plan would require BECC certification. By strengthening the institutional development programs, the BECC would actually receive facilities plans which would give them the ability to make decisions with the understanding NADBank has reviewed the city's finances and the city has adopted a financing plan to address the projects identified in the facilities plan. Furthermore, the institutional development program provides the public due process by working together with the NADBank and its public participation requirements. Local stakeholders would be given the opportunity to comment on projects identified

in the facilities plan and reduce the amount of political fallout for both agencies. Presently, facilities plans are approved by the BECC thus placing NADBank in a position of having to fund projects that are not financially sustainable. For the same reasons, projects have been certified by the BECC, and approved by the NADBank that are still sitting on the shelves.

### **NADBank/ BECC Reform**

In closing, I would urge the Congressional Leadership to strengthen the institutional development programs in order to provide a comprehensive approach to the water and wastewater issues facing our communities. These programs would be the NADBank pre-requisite before a city can submit a request to the BECC for certification. Only projects identified in the NADBank funded facilities plan would be eligible for funding. Both the BECC and NADBank should remain independent of each other but provide services in their field of expertise. We should not create a single Board for both agencies; otherwise there will be tremendous political pressure on the Board to fund projects that are not financially feasible. Finally, the BECC and the NADBank must be given the financial resources and tools to implement their programs. The amount of red tape after a project is certified and financed must be reduced, grant programs should be expanded and a clear vision must be adopted by Congress.